2004-2005 CAPITAL BUDGET

2005-2009 CAPITAL IMPROVEMENT PROGRAM

CITY MANAGER'S
2004-2005
BUDGET MESSAGE



CITY MANAGER

September 24, 2004

HONORABLE MAYOR AND CITY COUNCIL:

I am pleased to present the 2004-2005 Adopted Capital Budget and the 2005-2009 Adopted Capital Improvement Program (CIP) for the City of San José. The Budget and CIP presented in this document are intended to guide the City in the planning, scheduling, and budgeting of capital improvement projects during the next five-year period. This overview provides a summary of the significant issues and projects by each City Service Area (CSA) and capital program for the next five-year period.

The 2005-2009 Adopted CIP was developed in coordination with all of the City Service Areas (CSAs) and City departments responsible for capital projects. As required by City Charter, the Planning Commission reviewed the Proposed CIP and submitted its comments to the City Council prior to the adoption of this CIP.

The 2004-2005 Adopted Capital Budget totals \$1.23 billion, a decrease of 9% (\$122 million) from the 2003-2004 Adopted Capital Budget, which totaled \$1.35 billion. The 2005-2009 Adopted CIP totals \$3.51 billion. This is a 13% decrease from the \$4.05 billion included in the 2004-2008 Adopted CIP. While this CIP is smaller than the one adopted last year, it is still one of the largest in the City's history, continuing the "Decade of Investment" that is transforming much of the City's infrastructure. Even with these reductions, the City is entering the fourth year in which the annual capital program has topped \$1 billion, and the Five-Year CIPs have been in the multi-billion dollar range. To put this level of investment in perspective, the total annual capital budgets leading up to this period were well under this billion dollar figure and it was not until 1998-1999 that the annual budget in the last decade broke the \$500 million mark. Up until 1999-2000, the annual capital budgets were approximately one-quarter to one-half of the amounts budgeted in the last few budget cycles. It should be noted, however, that a relative few major initiatives are largely responsible for the healthy size of the CIP. These include the expansion of the San José International Airport and the renovation and expansion of the City's parks and community centers, libraries, and public safety facilities. Many of the remaining programs are either flat or down slightly from prior CIP funding levels.

As was the case last year, the expansion of the Airport is by far the largest component of the overall CIP. Approximately 40% of the 2004-2005 Capital Budget and 60% of the Five-Year CIP are dedicated to improvements at the Mineta San José International Airport. In the near term, the focus of this program will be compliance with federal security mandates. The largest of these security projects, the North Concourse Building, includes a permanent automated in-line explosive detection system and security screening space.

For the remaining non-security capital projects, the Airport Master Plan provides the overall framework for the expansion. The timing of the Airport Master Plan build-out will ultimately depend on certain economic factors, such as passenger activity levels and revenue collections.

As a result of voter-approved bond measures, major investments also continue in the parks, community centers and libraries. In November 2000, General Obligation Bond measures were approved to support library projects (\$212 million) and parks projects (\$228 million). The City's public safety facilities are also undergoing major renovations and expansions as a result of the voter-approved Public Safety Bond Measure in 2002 that authorized the issuance of General Obligation Bonds in the amount of \$159 million for public safety projects. This CIP allocates \$441.5 million from these sources to continue building new library, parks and public safety facilities, as well as renovating and expanding many of the existing library and park facilities and fire stations.

Significant capital investments in the City's utility infrastructure also continue in this CIP, including major renovations to the Water Pollution Control Plant, and the expansion of the water and sanitary sewer systems into the Edenvale and North Coyote Valley areas.

Major Objectives of Adopted Capital Budget

- Construct safe and effective City facilities that meet the needs of our community
- Stimulate the economy
- Plan for the future growth and development of the City
- Ensure we can operate the facilities we construct
- Deliver projects promised to the public
- Protect City assets
- Deliver capital projects on-time and on-budget

It is important to note, however, that these capital investments are occurring during a time of continuing severe economic difficulty for the City and the region as a whole. The level of funding contained in the CIP is possible, therefore, only because a number of the programs have dedicated revenue sources that are not tied directly to the economy or reflect voter-approved General Obligation Bonds that have provided an influx of resources to improve our libraries, parks and public safety facilities.

For those programs that do rely on economically sensitive revenue sources, the amount of funding available will be dramatically less than was available during the peak in the late 1990s through 2000-2001. For example, the Traffic Capital Program, which derives a significant portion of its funding from the development-related Construction Excise and Building and Structure Construction Taxes, is the most significantly impacted by the current economic conditions. Its development-related revenues have experienced a drop of between 40-50% from the peak in 2000-2001. Because this drop-off in revenues was correctly assumed in the development of the last few CIPs, however, the lower collection levels have not resulted in a major dismantling of previous five-year plans.

OPERATING BUDGET IMPACT

One of the major challenges in dealing with the contradiction between the availability of funding to improve our infrastructure and the daunting General Fund operating budget shortfalls that the City has experienced during the last several years has been to balance the need for the new and expanded facilities and the ability to operate and maintain these facilities. Following Council direction approved on February 17, 2004 as part of the 2003-2004 Mid-Year Budget Review, the Administration again evaluated all capital projects with significant General Fund operating budget impacts and brought forward specific recommendations to defer several projects that would have a negative impact if completed in the next few years. As a result of this analysis, the deferrals of a number of capital projects were approved with the adoption of the budget.

The Administration applied the following criteria to determine which projects would be recommended for deferral. The goal was to limit additional operating and maintenance costs over the next three years (2004-2005 through 2006-2007).

- ✓ That annual General Fund operating and maintenance costs exceed \$25,000 per year
- ✓ That construction contract for the capital project has not yet been awarded.
- ✓ There were no matching funds that would be jeopardized by deferring the project

After careful analysis of the capital projects with operating and maintenance costs, schedule changes and other cost reduction strategies in the Library, Park and Community Facilities, Public Safety, and Traffic capital programs have been included in this CIP to lessen the General Fund operating budget impacts over the next three years.

- Library The Library CIP incorporates a schedule change strategy and a cost reduction strategy to defer and reduce General Fund operating and maintenance impacts. Among other results, the schedule change strategy will delay completion of West Side Branch from 2007-2008 to 2010-2011 and accelerate completion of the Willow Glen Branch from 2010-2011 to 2007-2008. This change will allow existing staff from the Willow Glen Branch to relocate to the Evergreen Branch upon its completion. The opportunities for further deferral of Library projects are limited due to the previously planned staging of staff to complete the library facilities in which staff is reassigned from libraries under construction to newly constructed facilities. In addition to these schedule changes, the Library has developed a cost reduction strategy that identifies the minimum amount of resources necessary to open a facility.
- Park and Community Facilities The completion dates of six parks and community center projects have been delayed to minimize the operating and maintenance costs in the General Fund. These deferrals include four community centers and two parks projects. There are currently a number of parks capital projects that are underway that will result in operating and maintenance costs over the next few years. However, these projects did not meet the criteria for deferral outlined above and are moving forward as planned.

OPERATING BUDGET IMPACT (CONT'D.)

- Public Safety In-lieu of further delaying the construction of three fire stations scheduled to come on-line during the next three years, sworn personnel will be temporarily redeployed to staff these new stations. The schedules for these stations were previously deferred in the last CIP based on the significant operating and maintenance costs associated with these facilities. No Police projects were deferred because the significant operating budget impacts fall outside the three-year window that was used to determine which projects would be recommended for deferral. However, a strategy to minimize the operating and maintenance costs for the Police facilities has been developed. Under this strategy, the estimated operating and maintenance costs for all projects to be completed over the next few years have been reduced to reflect the minimum funding necessary to open the facilities.
- Traffic In developing the Traffic CIP, a concerted effort was made to program traffic investments that would minimize the addition of significant operating and maintenance costs to the General Fund. As an example, the number of programmed new streetlights was closely evaluated given their operating costs.

These strategies together result in the avoidance of a total of \$2.0 million in General Fund operating and maintenance costs in 2005-2006, \$5.3 million in 2006-2007, \$2.6 million in 2007-2008, and \$2.5 million in 2008-2009. A summary of the General Fund operating costs associated with capital projects programmed in this CIP is provided below. These costs incorporate the staffing reallocation, cost reduction and/or deferral strategies. The operating and maintenance costs that would result if these strategies were not implemented have also been provided for comparison purposes. Costs are shown starting in the year the projects will be finished and for the remainder of the five-year period. Any provisions for projects with operating and maintenance costs in 2004-2005 have been addressed in the Adopted Operating Budget.

The costs displayed in the following chart are for projects that come on line in the future years of the CIP. The operating and maintenance costs for projects that are being constructed by other agencies, but operated by the City, are also included.

OPERATING BUDGET IMPACT (CONT'D.)

Projected General Fund Operating and Maintenance Costs

Project Title	2005-2006	2006-2007	2007-2008	2008-2009
Civic Center*	\$ 7,653,000	\$ 16,210,000	\$ 16,404,000	\$ 16,609,000
Fire Facilities		1,077,000	6,005,000	7,314,000
Library Facilities	83,000	1,829,000	2,546,000	4,563,000
Parks Facilities	531,000	1,670,000	2,915,000	6,083,000
Parks Facilities-Other Agencies	250,000	855,000	894,000	1,074,000
Police Facilities	29,000	37,000	384,000	729,000
Traffic Projects	162,000	236,000	300,000	389,000
Traffic Projects-Other Agencies	59,000	148,000	155,000	162,000
Total	\$ 8,767,000	\$ 22,062,000	\$ 29,603,000	\$ 36,923,000
Total without Cost Savings Measures	10,727,000	27,392,000	32,187,000	39,459,000
Net Savings	\$ 1,960,000	\$ 5,330,000	\$ 2,584,000	\$ 2,536,000

Reflects the estimated General Fund share of the Civic Center costs. These costs have not been discounted by the expected lease savings or other cost savings measures.

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

As a framework for its performance-based budget, each of the 15 capital programs has been aligned to a particular City Service Area (CSA). The chart below compares the 2004-2008 Adopted CIP with the 2005-2009 Adopted CIP for each CSA. As can be seen on this chart, the budget for all but one CSA is down from the previous CIP. This is due in part to the fact that funds have been expended for some of the major one-time projects, such as the new Civic Center and many of the General Obligation Bond-funded projects, that have accounted for the tremendous growth in the CIP.

Comparison of 2004-2008 Adopted CIP and 2005-2009 Adopted CIP By City Service Area

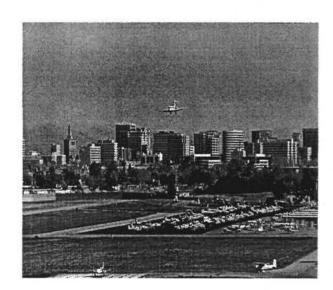
City Service Area	2004-2008 Adopted CIP	2005-2009 Adopted CIP	% Change
Aviation Services	\$ 2,572,812,000	\$ 2,117,540,000	(17.7%)
Economic & Neighborhood Development	7,641,000	9,062,000	18.6%
Environmental & Utility Services	385,995,000	361,537,000	(6.3%)
Public Safety	170,227,000	161,390,000	(5.2%)
Recreation & Cultural Services	526,181,000	491,152,000	(6.7%)
Transportation Services	215,150,000	212,821,000	(1.1%)
Strategic Support	171,910,000	155,632,000	(9.5%)
Total	\$ 4,049,916,000	3,509,134,000	(13.4%)

The following discussion of significant issues and projects included in the Adopted CIP is presented by CSA.

AVIATION SERVICES CSA

The Aviation Services CSA includes the Airport Capital Program. This program supports the following CSA outcomes:

- ✓ The Airport is the Region's First Choice for Air Transportation Services
- ✓ Travelers Have a Positive Guest Experience While Using the Airport
- ✓ The Airport is Considered to be a "Good Neighbor" by the Community
- ✓ Businesses Consider the Airport as a Partner in Supporting the Success of the Regional Economy



Airport Capital Program

The Airport Capital Program outlined in this CIP is focused on the implementation of security driven projects in the near term, with other projects programmed to coincide with anticipated passenger demand levels. Following is a discussion of major projects and issues.

- ☐ Timing of the Master Plan Build-Out: Since the revenue streams and activity levels at the Airport have remained depressed since the events of 9/11, the schedules for most of the demand-driven projects have been adjusted outward to reflect the demand reality. These schedules will continue to be adjusted as necessary to keep the anticipated demand for services and available revenue streams in alignment.
- North Concourse: \$265.7 million is programmed in the Adopted CIP for this project, which will provide for the baggage screening equipment, security screening space, ticketing and baggage claim operations, holdrooms, and jet bridge gates. This is the largest security-related project in the CIP and will provide the permanent response to the federal Aviation and Transportation Security Act requirements. This project is now scheduled to be completed in the 1st quarter 2007.
- Other Security Projects: \$70.7 million is programmed in the Adopted CIP for a number of other security projects, including the Airline Maintenance Facility, Central Plant Expansion, Air Cargo Screening, Security ID Display Area Improvements, Belly Freight Facility, and various infrastructure improvements, refurbishments and demolitions.
- ☐ Master Plan Projects: Significant expansion projects are expected to be underway during the next five years. These include the South Concourse and Central Terminal, the Rental Car Garage, the Short-Term Public Parking Garage, and the Double Level Roadway Decks and Ramps projects.
- □ Expanded ACT Program: \$56.2 million is programmed in the Adopted CIP to continue the acoustical treatment of approximately 1,200 eligible properties.

ECONOMIC AND NEIGHBORHOOD DEVELOPMENT CSA

The Economic and Neighborhood Services CSA includes the Developer Assisted Projects Capital Program. This program supports the following CSA outcome:

✓ Safe, Healthy, Attractive and Vital Community

Developer Assisted Capital Projects Capital Program

The Developer Assisted Projects CIP reimburses residential developers for construction of major City streets and encourages the undergrounding of existing overhead utilities. The objective of this program is to ensure that residential developments within San José include the construction of public improvements necessary to maintain or improve the infrastructure of the City. Following is a brief summary of the major projects in this CIP.

- □ Underground Utility Program: The underground utility projects are prioritized based on several criteria, the most significant of which is how much fee revenue has been collected within the proposed Underground District. The following projects are included in this CIP.
 - Park/Naglee Park (Naglee to Shasta) & Naglee (Park to Bascom) (Rule 20A)
 - Saratoga Ave. Route 280 to Kiely (Rule 20B)
 - Jackson/Taylor 4th to 9th Streets (Rule 20 A/B)
 - Ongoing Projects: 4th/5th/6th/7th Streets (Phase II) bounded by Santa Clara and St. John Streets; Stevens Creek Calvert to Stern; Guadaulape Gardens and Camden Avenue
- ☐ Median Island and Center Strip Paving: Major reimbursements are scheduled for the Communications Hill and the Dairy Hill projects.

ENVIRONMENTAL AND UTILITY SERVICES CSA

The Environmental and Utility Services CSA includes the Sanitary Sewer System, Storm Sewer System, Water Pollution Control and Water Utility Capital Programs. These programs support the following CSA outcomes:

- ✓ Reliable Utility Infrastructure
- ✓ Healthy Streams, Rivers, Marsh, and Bay
- ✓ Safe, Reliable, Sufficient Water Supply

Sanitary Sewer System Capital Program

The Sanitary Sewer System consists of approximately 2,000 miles of sewer mains ranging in diameter from 6 to 90 inches. The system serves the City, as well as three other jurisdictions, and conveys sewage to the Water Pollution Control Plant (WPCP). The objectives of this capital program are to rehabilitate large diameter sanitary sewers; reduce water inflow and infiltration in sanitary sewers; improve local neighborhood sewers; extend sanitary sewers to new development areas; and incorporate recommendations from the San José North Interceptor Facility Plan Report.

ENVIRONMENTAL AND UTILITY SERVICES CSA (CONT'D.)

Following is a brief summary of the major projects included in this CIP.

- □ Edenvale Sanitary Sewer: \$18.5 million is programmed in the CIP to complete this sanitary sewer. This project is scheduled to be completed in the 3rd quarter 2008.
- □ Fourth Interceptor Phase VI and VII: \$25.5 million is programmed in the CIP. Phase IV is scheduled to start in 2004-2005 and be completed in the 2nd quarter 2008.
- □ 84-Inch RCP Interceptor Phase VB and VIB: \$13.5 million is programmed in the CIP. Phase VB is scheduled for completion in the 2nd quarter 2005.
- □ Neighborhood Sewer Projects: The following smaller sanitary sewer projects are programmed to improve conditions in several neighborhoods:
 - East San José (\$1.2 million in CIP): Completion scheduled for the 4th quarter 2005.
 - Forest-Rosa Sewer (\$2.6 million in CIP): Completion scheduled for the 3rd quarter 2006.
 - Hester-Naglee Area (\$565,000 in CIP): Completion scheduled for the 4th quarter 2004.
 - Hobson-Walnut Area (\$1.2 million in CIP): Completion scheduled for the 1st quarter 2007.
 - Monterey-Riverside (\$2.6 million in CIP): Completion scheduled for the 1st quarter 2007.
 - Rosemary Area (\$1.1 million in CIP): Completion scheduled for the 3rd quarter 2006.
 - Willow-Union Trunk (\$3.7 million in CIP): Completion scheduled for the 2nd quarter 2007.

Storm Sewer System Capital Program



Rincon Storm System Improvements, Phase II

The purpose of the Storm Sewer System is to collect storm water, separate it from the Sanitary Sewer System, and convey it to nearby creeks and rivers. In accordance with the City's General Plan, the goal of the Storm Sewer System Program is to reduce the risk of drainage-related surface damage and to protect the quality of storm water runoff. The City is responsible for constructing facilities for conveying surface runoff in the City's Urban Service Area to adjacent stream channels. Construction of flood control facilities and the modification and maintenance of stream channels is the responsibility of the Santa Clara Valley Water District and the U.S. Army Corps of Engineers.

A three-year rate strategy was approved in concept by the City Council in June 2002 to increase the Storm Sewer Service Charge rate by 4% to 4.5% annually to ensure the fiscal health of the storm sewer system and continue a modest capital program. This CIP includes approval of the third and final year of that three-year strategy but does not assume any rate action for the remainder of the CIP period. Without the implementation of an additional rate increase program, it should be noted, however, that the amount of funding available to transfer from the Storm Sewer Operating Fund to

ENVIRONMENTAL AND UTILITY SERVICES CSA (CONT'D.)

the Capital Fund for capital improvements trails off to an insignificant level by the end of the five-year period. To continue a modest investment in the capital infrastructure and ensure the fiscal health of the Storm Sewer Operating Fund, the Administration intends to bring forward for Council consideration an additional 4.5% rate increase program for the 2005-2006 to 2007-2008 period as part of the next year's Proposed CIP. If this increase is approved, additional capital projects could then be incorporated into the CIP. Following is a brief summary of the limited number of projects possible in this CIP with the current rate structure.

- □ Storm Drainage Improvement Projects: With the resources available, only the following projects can be programmed to address storm drainage problems:
 - Albany-Kiely (\$2.0 million in CIP): Completion scheduled for the 4th quarter 2005.
 - Fremont Street (\$400,000 in CIP): Completion scheduled for the 4th quarter 2005.
 - Storm Pump Station Replacements (\$500,000 in CIP): Completion scheduled for the 2nd quarter 2005.
 - Willow Glen-Guadalupe, Phase II (\$2.0 million in CIP): Completion scheduled for the 3rd quarter 2005.
 - Reserve for Alma Storm Drain (\$693,000 in CIP): The completion date will be set once the total funding for this project is secured.
 - Chateau Drive Storm Drain Improvement, Phase I (\$1.3 million in CIP): Completion scheduled for the 2nd quarter 2007.
- □ Storm Master Plan: Master Plan funding of \$300,000 is programmed to identify and generate additional future storm projects for areas in need of significant improvements. Staff will focus on targeted areas in the City with known drainage problems.

Water Pollution Control Capital Program

The San José/Santa Clara Water Pollution Control Plant (WPCP) is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. This CIP focuses on preserving the Plant infrastructure and capacity improvement projects. A major source of funding for this program is the Sewer Service and Use Charge fee, which had not been increased since 1994. In order to maintain the program represented in this document, a three-year 4.5% rate increase to this fee was brought forward in the Proposed Budget and the first year of the increase was approved. Approval of the proposed increases for the following two years is assumed in the CIP. These increases are necessary to fund major capacity improvement projects and critical projects at the Plant. Further discussion concerning this fee increase is provided in the 2004-2005 Adopted Operating Budget. Following is a brief summary of the major projects in this CIP.

□ Plant Reliability Improvements: \$57.0 million is programmed in this CIP to improve the Plant's ability to handle wet weather flows and to improve the reliability of several of the Plant's critical systems such as headworks, filtration and major pumping stations. This project, which is scheduled for completion in 2009, will also look at ways to improve the reliability and efficiency of producing recycled water, as well as water discharge to the bay.

ENVIRONMENTAL AND UTILITY SERVICES CSA (CONT'D.)

- □ Plant Electrical Reliability: \$20.0 million is programmed in the CIP for major upgrades and replacements of electrical systems. This scope of work includes detailed electrical power distribution system analysis, increasing electrical power reliability by utilizing new technology, improved design, advanced monitoring and increased automation.
- □ Revised South Bay Action Plan: \$32.5 million is programmed in this CIP to complete the South Bay Water Recycling (SBWR) facilities in Santa Clara and Milpitas and the extension of a recycled water transmission line to serve the planned Metcalf Energy Center in South San José and the new City Hall. In addition, \$600,000 is programmed to develop a plan to ensure industrial users in the service area are recycling their wastewater and/or using SBWR to the largest extent possible.
- Alternative Disinfection: \$4.5 million is programmed in this CIP to design and construct facilities to replace the gaseous chlorine and sulfur dioxide system with liquid sodium hypochlorite and sodium bisulfite system. The presence of large quantities of chlorine and sulfur dioxide poses a high risk of damage in an event of massive sudden release. The replacement system, while increasing operating costs, reduces the risk of a massive catastrophe.

Water Utility System Capital Program

The San José Municipal Water System provides water utility service to approximately 25,000 customers (approximately 100,000 residents) in five areas within the City of San José: Evergreen, North San José, Alviso, Edenvale, and Coyote Valley. Projects in the Adopted CIP include the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. Major projects in the CIP include the following:

- □ North Coyote Valley Water System: \$2.9 million is programmed in this CIP to complete the \$7.7 million expansion of the water system to the Coyote Valley. This project is expected to be completed in the 3rd quarter of 2004.
- ☐ Security Improvements: \$450,000 is programmed to install additional security equipment at various system facilities.
- □ Rehabilitation and Replacement Projects: Several rehabilitation and replacement projects are scheduled in this CIP, including the Edenvale Well #13 Rehabilitation (\$250,000), Water Valve Rehabilitation (\$250,000), Villa Vista Reservoir Rehabilitation (\$250,000), Taffy Drive Main Replacement (\$250,000), Reservoir System Seismic Retrofit (\$300,000), Remington Drive Main Replacement (\$520,000), and Norwood Pump Station Replacement (\$800,000).
- □ System Development Projects: Several projects are designed to provide more capacity or better coverage, such as the Nortech Parkway East Loop Main (\$750,000), the North First Street Parallel Main (\$1.0 million); and the Montague Turnout (\$325,000 to start this \$5.9 million project).
- □ Recurring Projects: Several ongoing projects are programmed in this CIP to maintain the system and address system growth, including System Maintenance/Repairs (\$2.2 million), Infrastructure Improvements (\$2.1 million), Meter Installations (\$1.5 million), and Service Installations (\$1.8 million).

PUBLIC SAFETY CSA

The Public Safety CSA includes the Public Safety Capital Program, which supports the following CSA outcome:

√ The Public Feels Safe Anytime, Anywhere in San José

Public Safety Capital Program

The objective of the Public Safety Capital Program is to provide, maintain and improve facilities and equipment that support the delivery of effective emergency services to residents and visitors. The construction of a new police substation, four new fire stations and the relocation of six existing fire stations will provide the infrastructure to help meet this goal.



North/Central Community Policing Center

The major overhaul of the Public Safety infrastructure included in this CIP is possible only because the voters in San José supported investments in these facilities. On March 5, 2002, 71.7% of voters approved Measure O, the "9-1-1, Fire, Police, Paramedic and Neighborhood Security Act" (Neighborhood Security Act Bond Measure). This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund both Police and Fire Department capital improvements.

All of the projects funded by the Neighborhood Security Act Bond are scheduled to be underway during this five-year period. These projects include the construction of a South San José Police Substation, three new fire stations, four community policing centers, and a driver safety training facility. The program also includes the relocation of six fire stations, the remodel of 17 fire stations and the 9-1-1 Communications Dispatch Center, and the reconstruction of a new Fire Training Center and one fire station. Following are major highlights of the Adopted CIP.

- □ Public Safety Bond Projects: The bond projects are listed below with the anticipated completion dates.
 - South San José Police Substation: Completion scheduled for the 4th quarter 2008.
 - Driver Safety Training Facility: Completion scheduled for the 4th quarter 2006.
 - 9-1-1 Communications Dispatch Center: Completion scheduled for the 1st quarter 2006.
 - South Community Policing Center: Completion date TBD.
 - East Community Policing Center: Completion date TBD.
 - North/Central Community Policing Center: Phase II completion scheduled for the 3rd quarter 2006.

PUBLIC SAFETY CSA (CONT'D.)

- West Community Policing Center: Completion scheduled for the 1st quarter 2006.
- New Fire Station 34 (Berryessa): Completion scheduled for the 3rd quarter 2006.
- New Fire Station 35 (Cottle & Poughkeepsie): Completion scheduled for the 3rd quarter 2007.
- New Fire Station 37 (Willow Glen): Completion scheduled for the 2nd quarter 2009.
- Fire Station 24/36 (Silver Creek/Yerba Buena): Completion scheduled for 2nd quarter 2008.
- Relocate Fire Station 12 (Calero): Completion scheduled for the 3rd quarter 2007.
- Relocate Fire Station 17 (Cambrian): Completion scheduled for the 3rd quarter 2006.
- Relocate Fire Station 21 (White Road): Completion scheduled for the 4th quarter 2007.
- Relocate Fire Station 23 (Northeast San Jose): Completion scheduled for the 4th quarter 2006.
- Relocate Fire Station 25 (Alviso): Completion scheduled for the 3rd quarter 2006.
- Rebuild Fire Station 2: Completion scheduled for 1st quarter 2008.
- Fire Training Center: Completion scheduled for the 3rd quarter 2007.
- Fire Station Upgrades: Various completion dates.
- □ Revised Plan for the Fire Stations: After the issuance of the Proposed CIP, modifications to the current scope of work and the construction schedule for several fire station projects were outlined in Manager's Budget Addendum (MBA) #8 and approved by the City Council with the adoption of the budget. The major program changes, which include rebuilding Fire Station 2, relocating Fire Station 21, consolidating the existing Fire Station 24 and the new Fire Station 36, and maintaining the existing fire station construction schedules, would accomplish the following:
 - Improve fire, rescue and EMS emergency response performance on the Eastside by modifying
 the original scope of work as well as the project schedules for several bond fire projects.
 These revisions will create substantial long-term operating budget savings.
 - Allow the completion of the new fire stations without further deferrals recommended in the Proposed CIP. Because existing staff would be temporarily redeployed to the new stations in the short-term (until 2007-2008), these proposed schedule adjustments would have a minimal impact on the operating and maintenance costs that were presented in the Proposed CIP. This approach helps stimulate the economy, takes advantage of the current attractive bidding climate, and reduces project inflation costs.
 - Provide a funding plan to cover the furniture, fixtures and equipment costs for the new and remodeled fire stations. This plan includes using proceeds from the sale of former fire station sites as well as funding from the Construction and Conveyance Tax Fund.
- □ Communications Hill Fire Station (Fire Station 33): The Communications Hill Specific Plan states that developers must build a turnkey fire station as a condition of development. In addition, the developers have agreed to purchase fire apparatus, tools and equipment for the new station. This fire station is now scheduled to open in the summer of 2007. This schedule had been delayed 12 months in the 2004-2008 Adopted CIP and was going to be further delayed in the 2005-2009 CIP in an effort to minimize the General Fund impact. However, as outlined in MBA #8, sworn personnel will be temporarily redeployed to staff this facility in the short term to minimize operating costs, which will allow the construction of the facility to remain on schedule.

PUBLIC SAFETY CSA (CONT'D.)

□ Fire Vehicle Replacement and Equipment: Funding from the Fire Construction and Conveyance Tax Fund and the General Fund continues to support many of the infrastructure needs in the Fire Department, including fire apparatus replacement and repair, facilities improvements, hose replacement, emergency response maps, hand held radios, heavy rescue airbags, traffic control equipment, general tools and equipment, computer replacement, records management, and data analysis.

RECREATION AND CULTURAL SERVICES CSA

The Recreation and Cultural Services CSA includes the Library and Parks and Community Facilities Capital Programs. These programs support the following CSA outcomes:

- ✓ Safe and Clean Parks, Facilities and Attractions
- ✓ Vibrant Cultural Learning and Leisure Opportunities
- ✓ Healthy Neighborhoods and Capable Communities

Library Capital Program



Vineland Branch Library

The City's library system is undergoing a major transformation as a result of the November 2000 voterapproved bond measure that approved the issuance of \$212 million in General Obligation Bonds to improve the branch library system over a ten-year period. This bond measure provided funding for the reconstruction or replacement of 14 of the 17 existing branches and the construction of 6 new branches in unserved neighborhoods. Major projects in the CIP and issues are discussed below.

□ Library Bond Projects: Over the course of the 2005-2009 CIP, three new branches and twelve expansion/relocation projects will be completed and four others will be under construction. Listed below are the new and renovated branches that will be finished over this five-year period.

New Branches

- Alum Rock

- Tully

- Edenvale

Renovated Branches

Almaden Berryessa Cambrian

EvergreenHillviewLovce Elling

Rose GardenSanta Teresa

- Joyce Ellington

- Seventrees

East San José

- Pearl

- Willow Glen

RECREATION AND CULTURAL SERVICES CSA (CONT'D.)

- ☐ Furniture, Fixtures and Equipment: \$3.8 million from the Construction and Conveyance Tax Fund has been approved to be used to purchase furniture, fixtures and equipment for the new bond-funded facilities, since the General Obligation Bond funding cannot be used for these items. The 2004-2005 allocation of \$3.0 million is sufficient to meet the projected need next year.
- □ Sunset of the Library Benefit Assessment District: The Library Benefit Assessment District that funds a large portion of the materials acquisitions sunsets in 2005. Unless this assessment is renewed or an alternative funding source is in place, the overall quality of the library collections will be significantly impacted, and the annual allocation for the acquisition of materials will drop from \$3.9 million in 2004-2005 to \$1.3 million in 2007-2008 and 2008-2009. At this funding level, it is anticipated that approximately 97,500 books will be acquired in 2008-2009, which represents a steep decline from the actual acquisitions in 2002-2003 of almost 325,000 and will fall well below the target level of 140,000. Efforts are underway to place a measure on the November 2004 ballot to replace the assessment with a parcel tax of equivalent size.
- □ Schedule Changes to Reduce Operating and Maintenance Costs: The following schedule changes were approved to reduce operating and maintenance costs:
 - Accelerate Willow Glen Branch The completion date for this facility will be accelerated from 2010-2011 to 2007-2008. This will allow staff from the Willow Glen Branch to relocate to the Evergreen Branch during the renovation of the Willow Glen Branch.
 - Defer West Side Branch The completion date for this facility will be deferred from 2007-2008 to 2010-2011.

Parks and Community Facilities Capital Program

The Park and Community Facilities Development Capital Program plans for and implements the acquisition, development, and protection of parks, recreation facilities, and open space to maintain a high quality of life in San José. Under the direction of the Parks, Recreation, and Neighborhood Services Department, the program provides oversight of the planning and development for approximately 3,500 acres of parks (regional/city-wide and neighborhood/community) and open space in the City's sphere of influence. In addition, the City has plans for implementation of a trails and greenways system that will provide a 100-mile network of hiking, biking, jogging, and equestrian trails along the Guadalupe River, Coyote and Los Gatos Creeks, and all major feeder streams.

The program is managed through the use of 17 fiscal funds, including 10 Council District funds, a City-wide fund for city-wide/regional facilities, a Parks Bond Fund, and five special purpose funds, as well as contributions from the General Fund.

The City's Construction and Conveyance (C&C) Tax revenue has historically been the primary source of support for this capital program. However, over the last few years, the Parks Bond Fund has provided a significant amount of resources to address capital needs in the City's various park facilities.

RECREATION AND CULTURAL SERVICES CSA (CONT'D.)

On November 7, 2000, City voters approved Measure P, a \$228 million General Obligation Bond for park and recreational facilities improvements. This bond program provides funding over a 10-year period to renovate 95 neighborhood park play areas, add a total of 164,000 square feet to nine community and senior centers, renovate or replace 28 park restrooms, build two new sports complexes, expand the City's trail system at five locations, enhance four regional park facilities, including improvements and renovations at Happy Hollow Park and Zoo. The 2005-2009 Adopted CIP includes \$151.2 million for the construction of bond projects. Over the course of this five-year, seven community centers will be renovated, two sports parks will be constructed, several City trails will be expanded, and three regional parks will be renovated. These projects are listed below with the currently estimated completion dates in parenthesis.

□ Park Bond Projects.

- Almaden Community Center (1st quarter 2006)
- Camden Community Center (1st quarter 2005)
- Roosevelt Community Center (4th quarter 2007)
- Southside Community Center (1st quarter 2006)
- Solari Community Center (2nd quarter 2009)
- Mayfair Community Center (1st quarter 2008)
- Willows Community Center (1st quarter 2008)
- Almaden Lake Park (2nd quarter 2005)
- Emma Prusch Memorial Park (3rd quarter 2006)
- Happy Hollow Park & Zoo (1st quarter 2008)
- Shady Oaks Sports Park (2nd quarter 2008)
- Singleton Sports Park (2nd quarter 2008)
- Coyote Creek Trail-Los Lagos Golf Course to Kelley Park (1st quarter 2007)
- Guadalupe River Trail-Highway 280 to Curtner Avenue (1st quarter 2006)
- Los Gatos Creek Trail-Lincoln/Auzerais & Willow/San Pedro (4th quarter 2007)
- Los Aamitos/Calero Creek Trail (2nd quarter 2007)

With the financial difficulties facing the General Fund, the following strategies were developed to help ensure that the park facilities that are constructed can be operated and maintained.

- □ Schedule Changes to Reduce Operating and Maintenance Costs: The completion dates for six projects with significant operating and maintenance costs have been deferred to minimize these costs over the next few years.
 - Guadalupe River Park and Gardens Development (Deferred from 2nd quarter 2005 to 2nd quarter 2006)
 - Hoffman/Via Monte Center (Deferred from 2nd quarter 2005 to 2nd quarter 2007)
 - Mabury Park Development (Deferred from 1st quarter 2006 to 1st quarter 2008)
 - Mayfair Community Center (Deferred from 1st quarter 2006 to 1st quarter 2008)
 - Roosevelt Community Center (Deferred from 2nd quarter 2007 to 4th quarter 2007)
 - Willows Community Center (Deferred from 1st quarter 2007 to 1st quarter 2008)

RECREATION AND CULTURAL SERVICES CSA (CONT'D.)

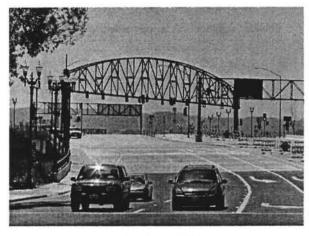
The Proposed CIP had included two additional projects for deferral, the Former Fire Station 27 Project, which was eliminated in the Adopted Budget, and the Tamien Skate Park, which had the schedule restored in the Adopted Budget.

- □ CIP Staffing: To more accurately reflect the actual resources necessary to deliver this capital program, funding for 2.95 positions in the Parks, Recreation and Neighborhood Services Department that support the capital program will be shifted to capital funds.
- □ Use of One-Time Excess Revenues: 2003-2004 Construction and Conveyance Tax receipts are expected to exceed the budgeted estimate by year-end. To help address the 2004-2005 General Fund shortfall, one-half of the additional revenue that would otherwise be distributed to the Parks Capital Program (\$1.1 million) was approved to be transferred to the General Fund to reimburse the General Fund for capital project expenditures that were eligible for funding from the Construction and Conveyance Tax Fund. The remaining half was spread through the normal formula to the Parks Construction and Conveyance Tax Funds.

TRANSPORTATION SERVICES CSA

The Transportation Services CSA includes the Parking and Traffic Capital Programs. These programs support the following CSA outcomes:

- ✓ Provide Viable Transportation Choices
- ✓ Provide Safe, Efficient, Neighborhood-Friendly Transportation Operations
- ✓ Preserve and Improve Transportation Assets to Enhance Community Livability



Taylor Street Bridge

Parking Capital Program

The Parking Capital Program's primary responsibilities are to maintain and improve existing facilities, upgrade and replace both on-street and off-street parking equipment, and develop parking facilities.

As part of the implementation of the San José Redevelopment Agency's (SJRA's) Strategy 2000 – Greater Downtown Strategy for Development, a Parking Management Plan was developed in 2001 to address both short-term and long-term parking needs. The Parking Management Plan anticipated approximately 3,125 new parking spaces would be needed by 2005 to meet short-term downtown growth and that an additional 1,500 spaces would be needed by 2008 to address future office

TRANSPORTATION SERVICES CSA (CONT'D.)

development. Since its approval in 2001, schedules and priorities of projects spelled out in the Parking Management Plan have been significantly impacted by the downturn in the economy as well as by changes in the supply of parking. As a result of the changing environment, the City Council/SJRA Board directed staff, in coordination with the Downtown Parking Board, to track key economic and parking information. Using this information, a series of economic and parking demand triggers was approved by the City Council as part of the 2004-2005 budget process as a way to gauge changes in the local economy and to initiate parking development at the right time. In the interim, the Adopted CIP includes a limited number of projects to continue initiatives that are underway and to perform ongoing facility improvements.

Following is a brief summary of the capital-related activity in the General Purpose Parking Fund.

- Operating Budget Reserve for Future Facilities: While not reflected in the Adopted Capital Budget, the Adopted Operating Budget for the General Purpose Parking Fund includes a reserve of over \$8 million for the construction of future parking facilities once demand for those facilities has returned.
- ☐ Parking System Improvements: The Adopted CIP includes funding to complete the 3rd Street Garage Seismic Upgrade project; to implement Phase II of the Parking Guidance System that will include roadway signs to direct motorists to the parking facilities; to continue replacing the Parking Revenue Control System at several garages and lots; and to perform ongoing facility improvements.

Traffic Capital Program

The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sensitive surface transportation system, consistent with the goals and policies of the City's General Plan. In the 2005-2009 Adopted Traffic CIP, \$205.7 million is allocated for the purposes of expanding and enhancing the transportation system. These resources are programmed to ensure that the transportation system supports the economic competitiveness of San José and provides residents with safe and attractive street facilities in their neighborhoods.

The Traffic CIP includes funding for the build out of the major street network (\$34.0 million); enhancements to the environment (\$10.6 million); maintenance activities (\$20.6 million); an array of operations and safety projects at the neighborhood level, including traffic calming, sidewalk, curb and gutter repair, bicycle and pedestrian facilities, new traffic signals, and street lighting (\$49.5 million); rehabilitation projects (\$4.5 million); funding to support the City's contribution to regional highway and transit systems (\$7.5 million); and planning and engineering for local and regional projects (\$27.3 million). Following is a discussion of some of the highlights of the Traffic CIP.

TRANSPORTATION SERVICES CSA (CONT'D.)

- ☐ Arterial and Collector Projects: The Adopted CIP funds the development of arterial and collector projects throughout the City, including the Senter Road and Oakland Road corridor projects, and the Berryessa Road and Union Avenue widening projects.
- □ Reserve for VTP 2030 Projects: During 2003-2004, the Santa Clara Valley Transportation Agency (VTA) updated their 30-year regional transportation master plan referred to as Valley Transportation Plan 2030 (VTP 2030). The plan includes an inventory of projects eligible for future regional transportation grant funding. To support the City's Council-adopted priorities in the VTP 2030 plan, an \$11.3 million reserve is included in the Adopted CIP to provide necessary local matching funds.
- □ Street Maintenance: In this Adopted CIP, capital funding for street-maintenance totals \$30.8 million. In addition, a total of \$17.2 million is anticipated from the Adopted Operating Budget over the next five years to support street maintenance, bringing the total investment to \$48.0 million. On a single year basis, in 2004-2005 a total of \$9.5 million in the capital and operating budgets (\$6.1 million and \$3.4 million, respectively) is allocated. This funding level falls well below the \$30 million annual investment needed to maintain the aggressive pace set in the 10-Year Street Maintenance Recovery Plan. With the current level of funding available, the streets condition rating is estimated to slip to 84% of streets rated fair or better in 2004-2005 and to 70% by the end of 2008-2009, well below both the current level of 87% and the goal of 97%. Department of Transportation staff will continue to seek funding opportunities to begin addressing this shortfall in coming years.
- ☐ Transfers to General Fund: As part of the General Fund budget balancing plan, the transfers from the Construction Excise Tax to the General Fund for general purposes were increased from \$6.8 million in the 2004-2008 Adopted CIP to \$9.0 million in the 2005-2009 Adopted CIP. In 2004-2005, the general purpose transfer to the General Fund totals \$6.2 million. In addition, \$12.5 million will be transferred to the General Fund over the five-year period for street maintenance, slurry seal, and neighborhood tree maintenance activities.

STRATEGIC SUPPORT CSA

The Strategic Support CSA includes the Civic Center, Communications, Municipal Improvements, and the Service Yards Capital Programs. These programs support the following CSA outcomes:

- ✓ Safe and Functional Public Infrastructure, Facilities, Materials and Equipment
- ✓ Effective Use of State-of-the-Art Technology

STRATEGIC SUPPORT CSA

Civic Center Capital Program

The Civic Center Capital Program is responsible for constructing the new Civic Center and associated parking facilities. The new Civic Center includes approximately 530,000 square feet of office and public space and is under construction on a 4.9 acre site located on the south side of East Santa Clara Street, between 4th and 6th Streets. Major components of this project include an 18-story office tower, a council chamber wing, an open public plaza with a rotunda, plus a 372-vehicle underground parking garage to serve the visiting public and some staff. Occupancy of this new facility is planned for mid-2005. The 2005-2009 Adopted CIP includes funding to complete this project as described below:

- □ Civic Center Construction Project: \$40.3 million is programmed in this CIP to complete the \$343 million Civic Center construction project. The off-site parking garage will utilize the majority of this funding (\$22.2 million), with the remaining funds allocated to complete the new Civic Center building.
- □ Civic Center Non-Construction Costs: In January 2004, the City Council approved the addition of \$45.25 million for technology, furniture and equipment to operate this facility in the most effective manner. The Administration is making every effort to bring this cost down by the goal of at least 15%. This CIP assumes that \$8.45 million will be spent or encumbered in 2003-2004 and the remaining \$36.8 million will be carried over to 2004-2005.

Communications Capital Program

The guiding objective of the Communications Capital Program is the provision of reliable, necessary public and non-public safety-related communications equipment for all City employees that require this equipment for their jobs. A summary of the major projects in this CIP is provided below.

- □ Communications Equipment Replacement and Upgrade: \$11.1 million is allocated in this CIP to equipment replacement and upgrades, which entails replacing a significant portion of the communications equipment over the next five years. Two federal grants totaling \$5.3 million will fund a large share of the replacement and upgrades.
- □ Police Dispatch Voting Receivers: \$920,000 is allocated in this CIP to install additional police voting receivers and upgrade signal conditioning devices at existing radio sites. This project will increase radio coverage across adjoining police districts.

Municipal Improvements Capital Program

The Municipal Improvements Capital Program provides capital improvements for City facilities that are not funded in other capital programs. The General Fund typically supports these projects. The 2005-2009 Adopted CIP includes the following ongoing allocations: HP Pavilion repairs (\$500,000);

STRATEGIC SUPPORT CSA (CONT'D.)

Fuel Tank Monitoring (\$250,000); Methane Monitoring and Control (Landfill Projects-\$1.25 million); and Unanticipated/Emergency Maintenance (\$1.0 million). In addition, the following major projects had funds rebudgeted from 2003-2004: Animal Shelter Facility Expansion (\$1 million); Los Lagos Golf Course Enhancements (\$481,000); Alviso Education Center (\$400,000); Animal Shelter (\$315,000); and HP Pavilion Repairs (\$212,000).

Service Yards Capital Program

The objective of the Service Yards Capital Program is to maintain and improve the existing conditions at the Service Yards by implementing projects to reduce safety hazards, increase efficiencies, and provide necessary equipment and materials for operations. While ongoing funding is allocated to address general capital improvement needs, the majority of funding in this capital program is set aside for the Debt Service on Central Service Yard Phase I project and the Central Service Yard Phase II project.

- ☐ Central Service Yard Phase I Debt Service: As a General Fund budget balancing strategy, \$3.5 million from the Service Yards Construction and Conveyance Tax Fund is allocated to the Central Service Yard Phase I Debt Service for 2004-2005 and 2005-2006. These debt service payments have historically been paid by the General Fund and after 2005-2006, it is assumed that the General Fund will resume making these payments.
- □ Central Service Yard Phase II: The Central Service Yard Phase II project has been deferred a couple of years to reflect the fact that a portion of the Construction Conveyance Taxes have been used to pay the Central Service Yard Phase I debt service costs as discussed above, thereby reducing the amount of funds immediately available for the project. The Adopted CIP does include, however, a revised plan for the Central Service Yard Phase II project. Under the revised schedule, planning and design for the Phase II project would resume in 2005-2006 with construction scheduled to begin in 2006-2007. The project budget in the Adopted CIP includes a reserve of \$35.5 million along with a \$200,000 allocation for design work.

MEASURING CAPITAL PROGRAM PERFORMANCE

The approach to capital project delivery is being transitioned from a department level delivery system to a City Service Area (CSA) delivery system. In 2003-2004, a set of consistent and comprehensive performance measurements was established for the entire capital program. Measures were created in four key measurement areas: schedule (cycle time), cost, quality, and customer satisfaction. These measures are designed to provide uniformity and consistency, provide clear and measurable outcomes, and to encourage CSA teams and departments to consider total requirements for service delivery, including capital facilities and assets. One-year performance targets are presented for each of these performance measures in the Adopted CIP.

CONCLUSION

Despite the severe fiscal challenges facing the City of San José, the 2005-2009 Adopted CIP, while slightly smaller than the 2004-2008 Adopted CIP, is still one of the largest in the City's history. Many of the initiatives started over the last few years will continue over the next five-year period to overhaul much of the City's infrastructure. The expansion of the Norman Y. Mineta San José International Airport will transform this facility into a true gateway to Silicon Valley. The major investments in the libraries, parks and community centers will improve the facilities most often used by the public.

These improvements are being made at a time when the City is facing a significant General Fund Operating Budget shortfall. As directed by the City Council, this shortfall and the resultant impact on the City's ability to operate and maintain new or expanded facilities have been taken into consideration as this CIP was developed. As a result, the CIP incorporates schedule changes and other cost reduction strategies to minimize the General Fund operating and maintenance costs over the next few years.

The Adopted CIP has been carefully crafted to sustain the City's underlying financial strength while meeting, to the greatest extent possible, the challenges presented by the growth of the City and the aging infrastructure. Every effort has been made to find a balance between continuing the momentum on delivering the major capital improvements approved by the voters, while weighing the ability to operate these facilities.

The development of the Adopted Capital Budget and CIP is a collaborative effort involving staff from each City Service Area. Input from the City Council and community members is incorporated to ensure that the overall capital program reflects the needs and priorities of our residents and visitors. I want to acknowledge the outstanding efforts provided by the many employees who made direct contributions to the analysis and production of this document.

DEL D. BORGSDORF CITY MANAGER